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C O N F I D E N T I A L SECTION 01 OF 04 LAGOS 000571

SIPDIS

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DOE FOR GPERSON, CGAY
TREASURY FOR ASEVERENS, SRENENDER, DFIELDS
COMMERCE FOR KBURRESS
STATE PASS USTR FOR ASST USTR FLISER
STATE PASS TRANSPORTATION FOR MARAD
STATE PASS OPIC FOR ZHAN AND MSTUCKART
STATE PASS TDA FOR NCABOT
STATE PASS EXIM FOR JRICHTER
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ

E.O. 12958: DECL: 08/09/2017
TAGS: EPET ENRG ECON PREL NI
SUBJECT: DOE A/S HARBERT'S DAY IN LAGOS: GAS, OIL, POWER,
AND THE NIGER DELTA

REF: A. ABUJA 1575 B. LAGOS 507

LAGOS 00000571 001.2 OF 004

Classified By: Acting Consul General Donald McConnell for reasons 1.4 (
B) and (D)

¶1. (C) Summary: On July 18, Department of Energy Assistant
Secretary for Policy and International Affairs Karen Harbert

SIPDIS
met with Lagos business representatives from the power, gas,
oil, and oil services sectors to assess the situation and
hear energy companies' concerns. International oil companies
(IOCs) stayed away from the latest licensing rounds as they
saw the contract terms onerous and the reserve potential
lacking, and oil services companies consider the 70 percent
local content requirement unobtainable. Nigeria's gas
potential can meet domestic and export demand, but more
exploration will be needed and the domestic market remains an
unprofitable venture. The energy representatives gave a
wide-ranging overview of the issues and challenges, but
underlying all these issues was a need to somehow resolve or
at least stabilize the security situation in the Niger Delta.
End summary.

¶2. (U) A/S Harbert's agenda in Lagos included; assessing the
prospects for oil exploration; discussing Niger Delta
security concerns; exploring new opportunities in gas; and
seeing how Nigeria will serve its electricity needs. A/S
Harbert met with Michael Illeane, General Manager of
Deepwater Assets for Chevron Olokola LNG (OKLNG); Steve
Segota, Managing Director for Haliburton; Rich Lewis,
Managing Director of Oilfield Services for Schlumberger; P.J.
Adediji of Baker Hughes; Imo Dutseli, Chairman of Dubril Oil;
Pierantonio Tassini, General Manager of Brass Liquified

Natural Gas (LNG) Limited; and Hasaan Mirza, Chief Financial Officer for AES Nigeria Barge Ltd, a power company.

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Chevron: Nigeria's Contracts Among the Toughest
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¶3. (C) Mike Illeane of Chevron shared with A/S Harbert Chevron's concerns in oil, gas, and security. The oil discoveries were getting smaller and the GON's contractual terms have become more onerous each time in the 1993, 2000, and 2005 bidding rounds, Illeane commented. The GON defines deepwater 7200 meters, Illeane said, but the most promising discoveries had been 800-1000 meters deep, and at 1500 meters or higher, the prospects dimmed considerably. IOC experts were convinced the "sweet spots" had already been drilled, so the IOCs avoided the latest bid rounds for deepwater offshore, although Illeane stated that Chevron was not averse to partnering with National Oil Companies (NOCs) who had successfully bid on drilling projects.

¶4. (C) Compared to other nations, Nigeria had some of the toughest contract terms, a situation Illeane attributed to the GON's tendency to overestimate new contracts while still trying to compensate for the old 1993 contracts, concluded when oil was priced at $20/barrell. The GON placed some trust in consultants for the Production Sharing Contracts (PSC), who develop the cost profile, security, local content provisions, as well as tax and investment incentives. Illeane would also like to see the GON express more flexibility in the local content provisions, which apply to both onshore and offshore drilling. While the GON has so far not stipulated local ownership, this is their intent, Illeane speculated. So far in joint ventures, while their Nigerian partners cover some of their costs they usually trailed by two-to-three months, and sometimes the GON would disallow some costs.

¶5. (C) Chevron remained committed to realizing opportunities in LNG, Illeane declared. Chevron chose to remain in the OKLNG project because of its greater equity, its favorable location in western Nigeria, and technical issues, Illeane said. Chevron considered the OKLNG partnership strong, though Chevron would try to improve the current costing strategy and Illeane considered the government-driven timetable more aggressive than he considered achievable. Eventually though, OKLNG would bring LNG to the U.S. east coast and gulf coast. Currently the project was in transition, observed Illeane, as the Yar'Adua administration lacked the close ties to the project that the Obasanjo administration had. (Note: Olokola is located on the border of the Yoruba-dominated Ogun and Ondo states. Former President Obasanjo is a Yoruba from Ogun. End note)

¶6. (C) Chevron's security had doubled in the past three years, but given the situation the company had difficulty attracting potential employees to come to Nigeria, remarked Illeane. The GON seemed less concerned about security, noted Illeane, because GON officials believed additional oil would come from deepwater drilling up to 70 miles offshore.

Oil Services: Local Content Provisions Loom

¶7. (C) Rich Lewis of Schlumberger, Steve Segota of Haliburton, and O.J. Adediji of Baker Hughes shared with A/S Harbert their concerns in the oil services sector. Oil services have had the challenge of finding quality employees either locally or outside Nigeria, as while many of the Nigerians are "bright and knowledgeable" companies had to spend time to develop them, said Lewis. Schlumberger was most concerned about finding specialized local workers, people competent with the latest technology. Lewis

considered the statistical reporting requirements for local content difficult, and he predicted that, given the specialized items, the requirement of 70 percent local content was impossible for his company or even for specialized local firms.

¶8. (C) The local content requirement would be a large expense but ultimately necessary, Segota added. The Nigerian National Petroleum Commission (NNPC) will enforce the provisions, but since the local content clause would be subject to different interpretations no one knows for certain how things will turn out, remarked Segota. Oil services companies were getting "raided" for personnel to meet the local content provision, according to Lewis, as there was a flurry of local activity. Nigeria has led the way in West Africa with its demand for local content, as other West African countries had followed with their own content provisions, Lewis remarked.

¶9. (C) When A/S Harbert asked if they thought the GON could achieve their goals as an oil-gas exporter, particularly the goal of 4 million barrels a day by 2010, none of the oil services representatives considered the 4 million barrel goal realistic. Lewis said he had so far not seen an accelerated push to explore for gas, but he said if the GON could develop the oil blocks in deepwater oil, drilling could increase in 10 to 20 years. The recent licensing round bidding by the NOCs was not for profit but for energy security, he added.

¶10. (C) Despite both companies experiencing hostage takings, Lewis and Segota both said their companies would remain in Nigeria, since despite the danger, oil services companies would have to work in Nigeria in order to service the major IOCs worldwide. However, while corruption would always be an

issue in the Niger Delta, there was a need to bring the security situation into balance, said Lewis, noting that Schlumberger had tripled the amount spent on security so it now totaled 55 percent of its budget. Segota considered the local governments culpable and unmotivated to resolve the kidnappings, as they always received a share of the ransom.

¶11. (C) Adediji commented that the militants had discovered the soft underbelly of the Nigerian economy, the IOCs. The oil services representatives predicted that because of the criminal element the kidnappings would continue, but as certain targets became more difficult to seize the militants and criminal elements would seize softer targets, including facilities or other items of value. While Segota thought inundating the region with military forces would alleviate the situation somewhat, this action would likely heighten the tension, which neither the government nor the IOCs wanted.

Brass: LNG Sees Encouraging Progress

¶12. (C) Pierantonio Tassini of Brass LNG saw some encouraging progress in the proposed Brass project. Although no financial decision has formally been made to date, considerable investment in the project has already been made. The project would start with one train, of which approximately 85 percent of its production would go to the U.S. Tassini noted that NNPC could be playing a better role in coordinating between the Brass and OK-LNG projects. On power, he said Nigeria,s domestic market would consume a small percentage of gas compared with what would go to the international gas market, and Tassini analyzed that the power problem was who would get paid and what was the cost of the subsidies. While there was a minimum profit guaranteed, according to Tassini, you could never make much profit margin selling gas in Nigeria.

¶13. (C) Tassini considered the solution to militant youth activity was not only political, but law enforcement needed

to "crack down" on the criminal elements in order to progress on the political side.

Power: Lack of Transparency
Plays a Role in the Power Crisis

¶14. (C) Hasaan Mirza of AES spoke to A/S Harbert about the GON's bidding process for the Egbin power station in Lagos and the ongoing power crisis. The Egbin tender was a "charade", commented Mirza. The GON did a sudden tender on April 4 for determination on April 18 or 21, in the middle of Nigeria's chaotic election season. In April, AES received a call from the Bureau of Public Enterprises (BPE) with a tender on the Egbin plant, and AES was asked to submit a technical proposal. The tender was amateurish and unrealistic, opined Mirza, and made what he considered an outlandish request to double power in only five years. AES looked at the tender and expressed interest but did not bother to submit a bid, Mirza said, as the BPE intended for South Korea's state power company to win the $25 million contract. While the South Koreans are listed as bid winners they are actually technical partners, Mirza remarked, and the actual contract would go to an undisclosed Nigerian, rumored to be Obasanjo's son.

¶15. (C) Turning to Nigeria's ongoing power problems, Mirza noted the problem was not a power crisis but a gas crisis. When the Chevron pipeline explosion cut off gas supplies, the

GON prioritized delivery to AES over Egbin, who had mismanaged their system. As the Power Holding Company of Nigeria (PHCN) suffered from a cash flow problem, usually AES expected the GON to be two-to-three months late in its payments.

¶16. (C) Mirza also detailed AES's recent travails in its tax exemption dispute. (Ref B) Mirza was optimistic President Yar'Adua's intervention in the dispute and commitment to the terms of the contract would lead to a positive resolution. Not all the ministers understood how international finance projects work, Mirza said, adding that although Nigeria Energy Regulatory Commission (NERC) chairman Ransome Owan understood the international situation, NERC would nevertheless occasionally issue "ridiculous" licenses.

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Niger Delta: First Priority Should be Infrastructure
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¶17. (C) Imo Itsueli, Executive Director for Dubril Oil and a long-time oil industry veteran, explained to A/S Harbert that the Asian NOCs were successful in the latest licensing rounds because they were responding to the needs of their local markets. U.S. companies opted out of the licensing rounds, but he considered it somewhat short-sighted of the IOCs to not participate, as the NOCs by contrast judged it was better to take a risk in "familiar territory", Itsueli opined.

¶18. (C) In Itsueli's opinion, the Niger Delta suffered from neglect under Obasanjo because he considered the problem one of lawlessness and did not give the problem the attention it required. Obasanjo further erred, thought Itsueli, when he arrested militant Mujahid Dokubo-Asari and Bayelsa Governor Diepreye Alamieyeseigha, actions which heightened the tension even further. For a solution, Itsueli said the Nigerian government should first concentrate on developing basic infrastructure, such as roads and schools. In his opinion, even electricity could wait until after these basic needs. Ultimately, the government solution to the insurgency would involve persuading hearts and minds, Itsueli opined. The Niger Delta Development Commission, ostensibly set up for regional development, had a role to play but had drifted from its mission into other arenas, Itsueli remarked. Commenting

on the power crisis, Itsueli thought that Yar'Adua had a better perception of the power problem, though he doubted the government would reduce the subsidies.

Comment

¶19. (C) Our interlocutors painted an energy picture of a Nigeria still with plenty of potential, especially in gas, despite the challenges. Despite complaints about the local content provisions, they all seemed to support greater local involvement, and were all prepared to remain in Nigeria for the long haul. What underlies the GON's seemingly unobtainable goals in production and local content is a need to somehow show how its carbon resources will benefit more of the country's burgeoning population. Widespread skepticism of the GON's ability to reform itself and, in particular, resolve the Niger Delta situation abounds; there is a consensus that despite the new administration the heightened security restrictions are here to stay.

¶20. (U) DOE Office of Policy and International Affairs cleared this cable.

MCCONNELL